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C O N F I D E N T I A L SECTION 01 OF 02 DUSHANBE 000067

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E.O. 12958: DECL: 1/14/2020

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SUBJECT: TAKING A STAND AGAINST THE ROGHUN EXTORTION (\*\*\*) CORRECTED COPY (\*\*\*)

REF: DUSHANBE 052

CLASSIFIED BY: Kenneth Gross, Ambassador, Exec, DOS.

REASON: 1.4 (b), (d)

\*\*\* CORRECTED COPY \*\*\*

¶1. (C) SUMMARY: International Monetary Fund (IMF) Resident Representative Luc Moers (protect) said the government's campaign to extort money from the population for the construction of the Roghun hydroelectric dam appeared to violate the terms of the IMF's current assistance to Tajikistan. He said, however, that his view may be at odds with that of IMF headquarters in Washington, who appear to be adopting a more conciliatory tone with the government. A high-level IMF team will be here in early February to assess the government's progress. This represents an important opportunity for the United States and other IMF board members to express their serious concerns about the government's behavior and to urge the IMF to hold the government accountable to its agreements. Post will work carefully with our diplomatic colleagues to present a forceful and unitary message to the IMF and to the government of Tajikistan. END SUMMARY

IMF RESREP SAYS ROGHUN CAMPAIGN MAY VIOLATE LOAN AGREEMENT

¶2. (C) Econoff met with IMF Resident Representative Luc Moers on January 13 to discuss the government's recent campaign to extort and intimidate the Tajik population into buying shares in the Roghun hydropower project (reftel). Emphasizing that he was speaking personally and not in his capacity as Resident Representative, Moers said the "fundraising" campaign was not only morally reprehensible but appeared to violate the government's agreement with the IMF under the Poverty Reduction and Growth Facility (PRGF) signed last year. Under the PRGF, the IMF has agreed to provide the government of Tajikistan \$116 million in preferential loans over three years. The first tranche of \$40 million was disbursed last year; another tranche of \$30 million will be considered in the coming months.

¶3. (C) Moers said the Roghun drive, in which Tajik citizens from all walks of life are being forced to buy shares in Roghun, appeared to break several provisions of the PRGF. First, the IMF and other donors have required the government to maintain minimum social sector funding levels -- including education,

health, and pensions -- as a condition of assistance. Since the government is forcing teachers, doctors, and pensioners to buy shares in Roghun, often well in excess of their monthly salaries, actual social sector spending is certainly well below agreed targets.

14. (C) Second, the government of Tajikistan committed to limiting Roghun funding to \$140 million in 2010. (Moers said the IMF only reluctantly agreed to this level, which it believed was too high given Tajikistan's pressing needs in other sectors.) The Roghun funding drive has reportedly raised well over \$100 million in its first few days alone. If this amount is added to the budget, it far exceeds the agreed amount. Third, additional expenditures on Roghun would violate the government's overall commitment to maintaining a particular budget spending envelope. Fourth, the government has agreed to try to maintain certain macroeconomic conditions. The forcible extraction of massive amounts of cash from the already impoverished population might have severe consequences on this condition, including on inflation, exchange rates, and balance of payments.

#### IMF HEADQUARTERS HAS SOFTER VIEW

15. (C) Moers said he had carefully briefed his superiors at IMF headquarters in Washington about the severity of the Roghun issue, but they appear have a relatively conciliatory attitude toward the government's actions. For one thing, IMF headquarters is not questioning the morality of the Roghun campaign, even though Moers said it clearly constitutes a

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regressive, ad hoc tax falling disproportionately on the poor. IMF Washington is focusing on a few narrow macroeconomic concerns. Even on these issues, Moers said, they are showing an early inclination to work with the government. In particular, they say if the government could demonstrate the money it is collecting for Roghun would be kept in savings until next year, they would not have violated their spending envelope restrictions. Provided they have met other macroeconomic benchmarks for 2009, the PRGF funding could continue.

16. (C) COMMENT: The upcoming visit of the IMF team represents an important opportunity to pressure the government to alter its destructive Roghun strategy. In addition to the socio-economic and macro-economic issues raised by the Roghun campaign, it is also a step backwards in budget transparency. The government is collecting non-tax revenue in a separate off-budget account with virtually no accountability. The government cares about the PRGF, and even little hiccups -- such the U.S. "no" vote on the package last year -- get its attention. To stiffen the IMF's spine, however, the international community, and particularly IMF board members, will have to be vocal, insistent, and unified in voicing their concerns here, in their capitals, and in Washington. We believe we are pushing on an open door: in informal discussions our European counterparts have been as aghast as we are at the Roghun campaign. The question is whether their capitals will pay heed. END COMMENT  
GROSS